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Munis Post Biggest Weekly Slump in 11 Months as Rate Hikes Loom.

State and local-government bonds are having their worst week in nearly a year, pushing yields to the highest since April 2020 as investors brace for tighter Federal Reserve policy.

Yields on 10-year benchmark municipal bonds have climbed 24 basis points this week to 1.53%, in the biggest jump since February 2021, according to data compiled by Bloomberg.

Munis have joined the broader bond-market selloff, falling 2.3% in January, for the worst monthly performance since March 2020, Bloomberg index data show. It's a steeper slide than seen in Treasuries, which are down about 1.9% this month.

Eve Lando, a portfolio manager at Thornburg Investment Management Inc., said state and local-government debt trails Treasuries moves often by multiple days.

"Munis are slow to start running and they're slower to stop," she said. With the Treasury market stabilizing, it'll probably take a few days for munis to catch up.

With munis underperformance, 10-year benchmark yields are now about 82% of comparable-maturity Treasuries, the most since 2020, showing state and city debt has cheapened on a relative basis.

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